

# State Debt Reference Sheet

## Recent Debt-Related Legislation

**Connect NC** (SL 2015-280): Voter approved (GO) \$2B bond for specific projects across the State (i.e. UNC, Community College, and State agency buildings; water/sewer; and parks). As of early 2019, \$334M has been spent.

**Build NC** (SL 2018-16): GA approved (special indebtedness) financing tool that enables the NC Department of Transportation (DOT) to accelerate highway projects. With approval, DOT can issue up to \$300M per year for 10 years. The bonds will be repaid by appropriations from the Highway Trust Fund.

**State Capital Infrastructure Fund** (SCIF, SL 2017-57): established new “pay-as-you-go” fund to address ongoing capital needs for State agencies and UNC. Beginning July 1, 2019, 4% of the State’s General Fund net tax revenues and ¼ of the unreserved fund balance are to be deposited in the SCIF. After paying debt service, remaining funds will be used for State capital projects.

**UNC Capital Projects Bills** (aka “non-appropriated” or “self-liquidating” bills, SL 2017-141 and SL 2018-35): allow UNC institutions to acquire or construct capital improvements listed within the bills. These projects are funded through sources other than tuition or the General Fund, e.g. student housing fees, hospital receipts, or athletic tickets.

## Rating and Capacity

**Triple Triple-A:** NC is one of only 13 states to hold a Triple-A rating from all three of the major bond rating agencies (Moody’s, Standard & Poor’s or “S&P,” and Fitch).

**Capacity:** Based on the recommendations of the State’s Debt Affordability Advisory Committee, after a recommended transfer to cover benefit liabilities, the remaining General Fund debt capacity is \$207M each year over the next 10 years or up to \$1,365M in the first year. The transportation debt capacity is \$0. This recommendation incorporates the future issuance of \$1.4B in Connect NC Bonds and \$3B in Build NC Bonds.

**Debt Service:** Debt service is the principal and interest due in a given year on outstanding borrowing. General Fund debt service is expected to peak at 3.09% of revenue this year, with the absolute amount of annual debt service peaking at approximately \$751 million in FY 2020-21.

## Terminology

**Capital Lease:** long-term lease that creates a debt-like obligation

**Certificates of Participation (COPs):** certificates issued by a special corporation assigning investors a share of a revenue stream, e.g. lease payments by the State to use a building, COPs are a type of special indebtedness

**Energy Performance Contract:** arrangement in which the State borrows money to pay a private contractor for energy savings upgrades. Debt service is paid from energy savings or reimbursements from the contractor to the extent savings fall short.

**GARVEE** (Grant Anticipation Revenue Vehicle): bond or similar financing method issued to accelerate spending of revenue, e.g. DOT builds highways before receiving federal funding for those highways, repaying the borrowing with the federal funds.

**General Obligation Bonds (G.O. Bonds):** a type of bond backed by the “full faith, credit, and taxing power” of the State. Under the NC Constitution, these bonds are usually either approved by the voters or issued under the two-thirds authorization (see below).

**Installment Purchase Contract:** buyer purchases property with payments over time including implied or explicit interest, seller or financier retains a security interest until all payments are made.

**Issuance Premium/Discount:** Amount by which sale price of bond differs from face value due to coupon rate being higher or lower than market interest rates.

**Limited Obligation Bond:** a type of special indebtedness authorized by the General Assembly.

**Notes Payable:** non-bonded debt, e.g. bank loans

**P3 (Public Private Partnership):** contractual arrangement between public and private sector partners, which allows more private sector participation than is traditional. Usually involves a government agency contracting with a private partner to renovate, construct, operate, maintain and/or manage a facility or system

**Revenue Bond:** a type of special indebtedness that is to be repaid with specific revenues, for example highway tolls or student housing fees.

**Special Indebtedness:** borrowing that is not backed by the “full faith, credit, and taxing power” of the State. Repayment relies on the General Assembly’s willingness to appropriate the debt service or on another revenue stream, so State usually pays higher interest than for GO debt.

**Special Obligation Bonds:** a type of Special Indebtedness issued by UNC. Many could be described as Revenue Bonds.

**Two-Thirds Bond (aka Legislative Bonds):** a general obligation bond issued without a separate vote by the public. Under Article V of the NC Constitution, this debt is limited to 2/3rds of the amount by which the GO debt was reduced during the preceding biennium.

## State of North Carolina Outstanding Net Tax-Supported Debt

**The State's total outstanding debt at June 30, 2018 totaled approximately \$6.5 billion of which \$5.0 billion was tax-supported.**

<b><u>Tax-Supported</u></b>	<b><u>Amounts (\$millions)</u></b>
<input type="checkbox"/> General Obligation Debt	\$2,441.7
<input type="radio"/> General Fund (\$2,340.4)	
<input type="radio"/> Highway Fund (\$101.3)	
 <input type="checkbox"/> Special Indebtedness	 \$1,784.0
<input type="checkbox"/> NCTA Gap-Funded Appropriation Bonds	\$707.1
<input type="checkbox"/> Installment Purchase / Equipment & Capital Leases <sup>(1)</sup>	<u>\$28.1</u>
 Total General Fund Tax-Supported Debt	 \$4,152.5
Total Highway Tax-Supported Debt	\$808.4
	<u>\$4,960.9</u>
 <b><u>Non Tax-Supported</u></b>	
<input type="checkbox"/> GARVEEs	\$516.8
<input type="checkbox"/> NC Turnpike Authority (includes TIFIA)	\$800.6
<input type="checkbox"/> Guaranteed Energy Savings Contracts <sup>(2)</sup>	<u>\$196.8</u>
 Total Debt	 <u>\$6,475.1</u>

(1) Lease information - OSC and other sources.

(2) Total GESCs entered into through June 30, 2018 was \$268.8 million.

Excludes \$7.4B in obligations of the University of North Carolina System or other Component Units.